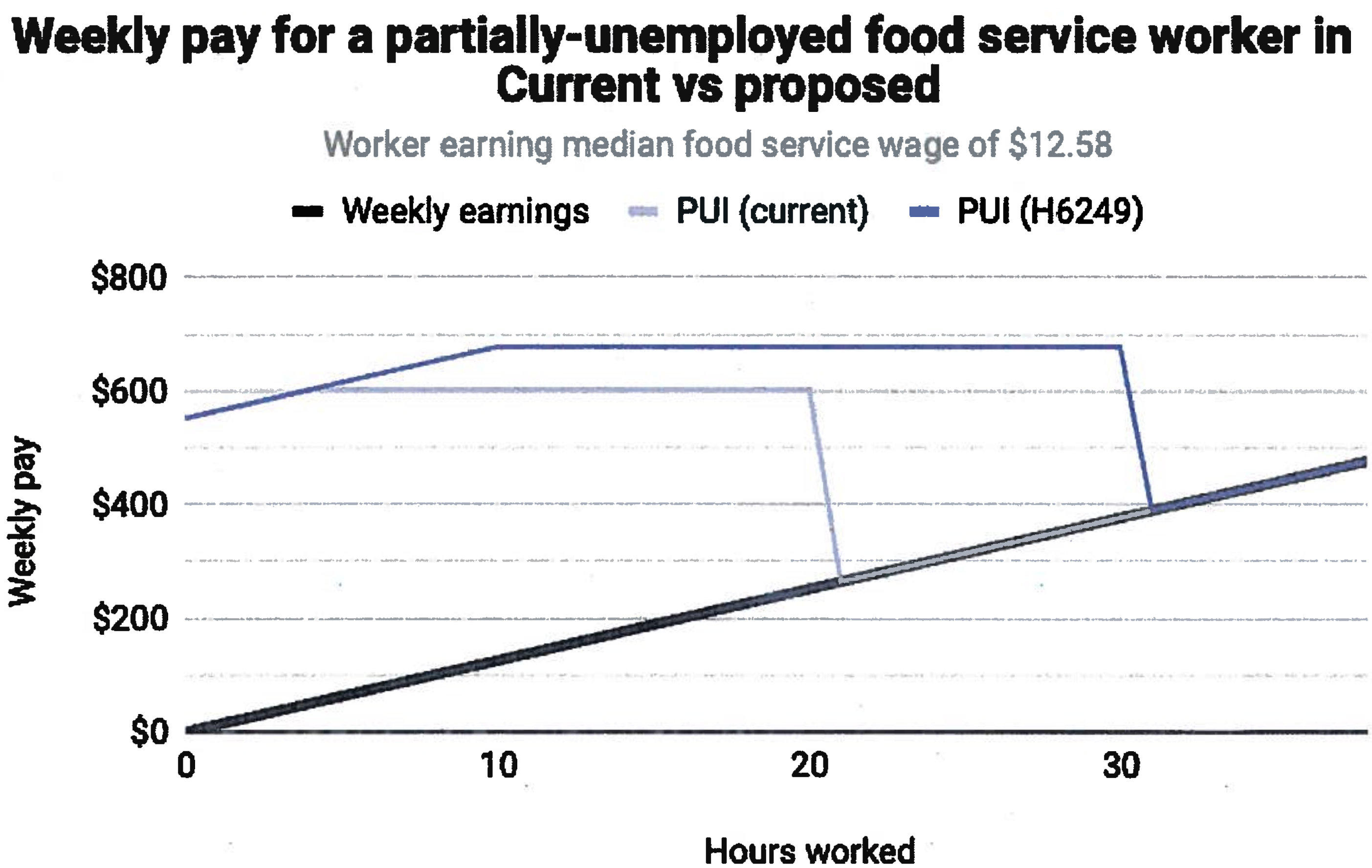
Steven Sepe

From: Andrew Boardman <aboardman774@gmail.com>
Sent: Tuesday, May 4, 2021 12:37 PM
To: House Finance Committee
Subject: H6249 - Andrew Boardman

Chairman Abney and Honorable Members of the House Finance Committee,

By allowing workers to keep claiming benefits while they earn, partial unemployment insurance can act as an encouragement to re-enter the workforce. H6249 adjusts and expands Rhode Island's partial unemployment system to do two things: Make work pay more and permit a greater number of workers to use the program:



All in all, H6249 is a big upgrade to Rhode Island's unemployment insurance system and represents a sensible approach to supporting economic recovery.

However, two changes could make the legislation even more effective:

1. Raise the earnings threshold beyond 150% of the weekly benefit amount;

2. Make these changes to the partial unemployment system permanent, rather than temporary.

Raise the earnings threshold beyond 150% of the weekly benefit amount

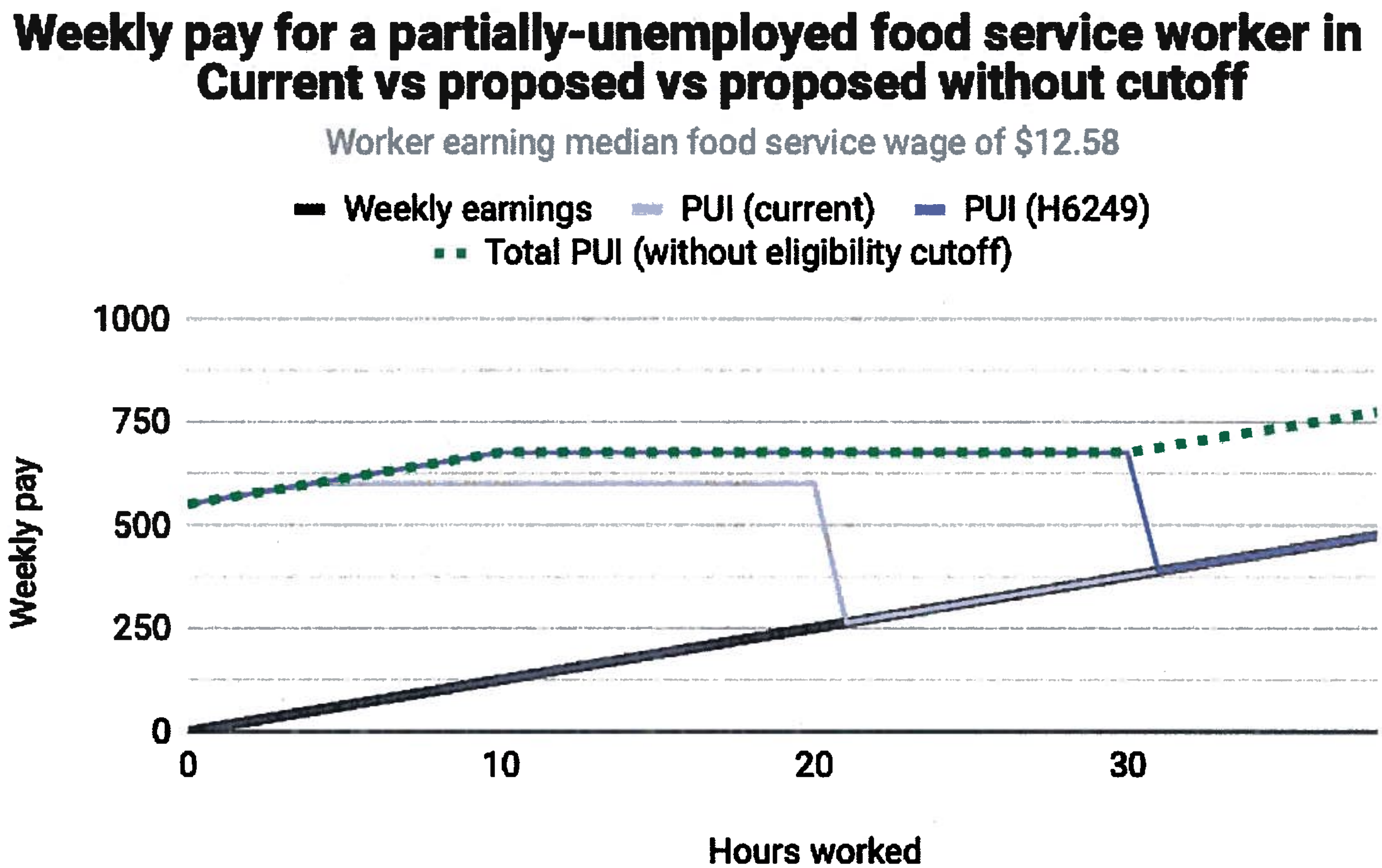
Once a person works too much to claim partial unemployment benefits, her eligibility for both state and federal unemployment compensation is cut off — creating a precipitous cliff. Due to the all-or-nothing structure of the federal supplement, earning one dollar above the threshold can mean losing hundreds of dollars in partial unemployment benefits. In the current system, a food service worker who clocks 21 hours instead of 20 receives an additional $12.58 in wages for the extra hour, but loses about $350 in unemployment benefits (about $50 in state benefits, which are cut off before they can fully phase out, plus the $300 federal supplement). This effectively creates an astronomical marginal tax rate of 2,787% for the 21st hour worked — and that's before taking into consideration payroll, income and other taxes.

H6249 expands eligibility to more — but not all — re-employed workers. Under the proposal, a worker can receive partial unemployment compensation if she earns less than 150% of what she'd receive from the state in jobless benefits. In effect, this means someone who previously worked 40 hours per week can claim partial benefits if she now works 30 or fewer hours. Raising the earnings threshold allows workers to earn more, up to a certain amount, without being penalized.

In other words, H6249 would allow a typical food service employee to take on ten additional hours before hitting the benefit cliff. It also slightly reduces the size of the cliff, from $350 to $300, making the marginal tax rate on the 31st hour worked 2,388%.

As a result, under both current law and the proposed system, a newly-reemployed person working 15 hours per week would receive a higher income than someone working 40.

Can the cliff be avoided? Unfortunately, probably not. Federal law "limits the payment of [unemployment compensation] to periods in which an individual has experienced unemployment, that is, an actual reduction in hours worked," according to the US Department of Labor. In other words, full-time workers can't receive unemployment insurance — not even partial unemployment insurance. The General Assembly probably cannot eliminate the partial unemployment eligibility cap altogether and send the $300 weekly federal bonus to all re-hired workers regardless of their earnings or hours worked. This means the cliff has to fall somewhere.



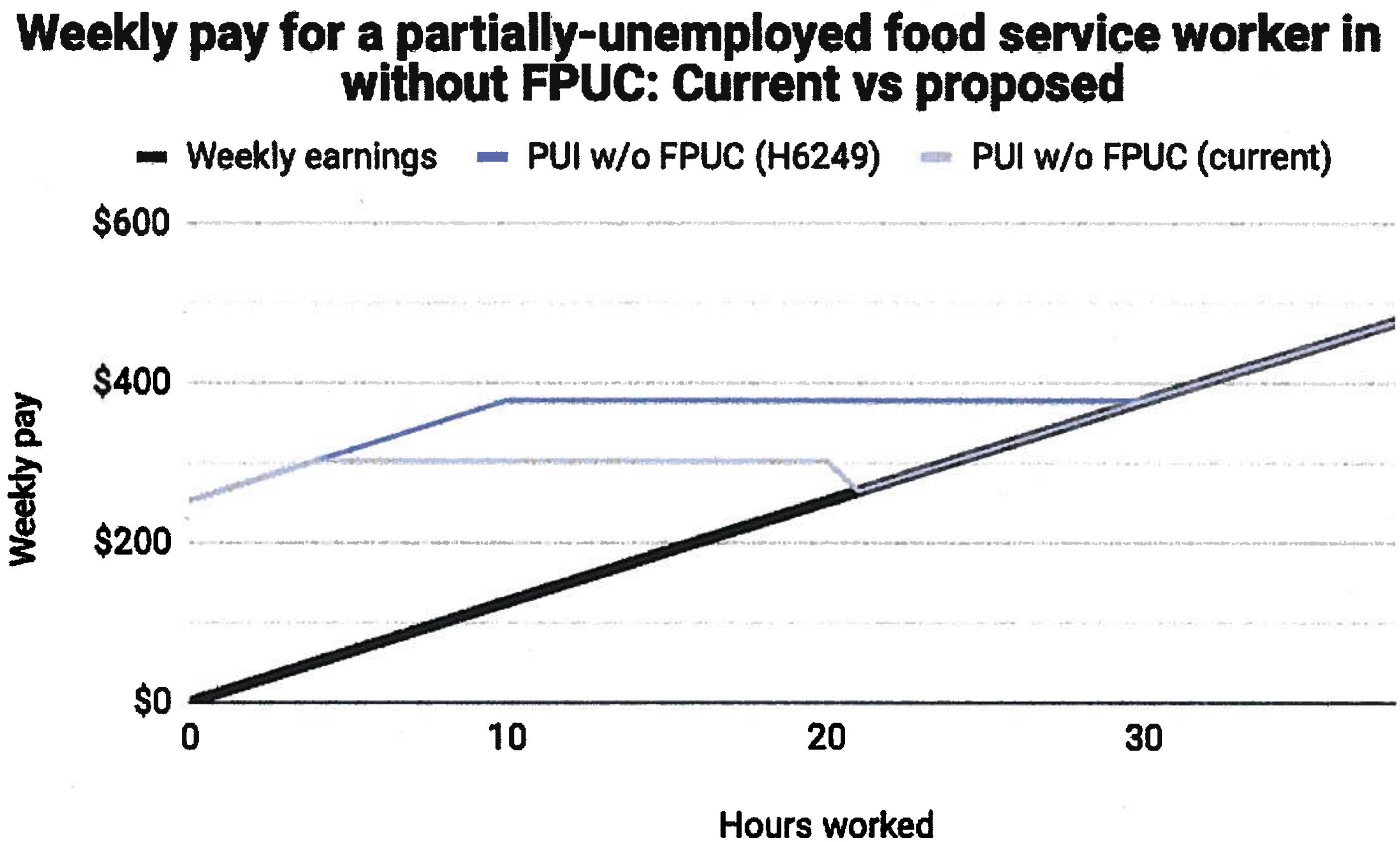
While you can't scrap the threshold entirely, members of the General Assembly should think about lifting it higher than 150% of weekly unemployment benefits. Raising it as close to the equivalent of full-time work as possible would have multiple benefits:

1. First, it would allow more workers to claim the federal $300 supplement, reducing the number of workers who face the perversity of losing out on income by working more;
2. Second, it would help employers ramp up business capacity, which they say is currently curtailed by workers not wanting to go over the benefit cutoff;
3. Third, lifting the eligibility threshold beyond 150% would come at no cost to state finances relative to H6249 as currently written — in fact, it would boost revenue collections. By the time a worker reaches earnings equal to 150% of unemployment benefits, her state unemployment payment is fully phased out, thanks to the dollar-for-dollar offset of earnings and benefits that kicks in after the earnings disregard period. Raising the threshold would not cause any more state unemployment insurance payments to be made, but it would allow more workers to receive the $300 federal boost. And since Rhode Island taxes unemployment benefits as ordinary income, allowing more workers to receive the federal supplement means more dollars for the state budget. That's not to mention the boost to sales tax revenue from putting more dollars in peoples' pockets, and the increase in payroll tax revenue from workers taking on more hours.

<u>Make these changes to the partial unemployment system permanent, rather than temporary</u>

The provisions of H6249 are set to expire on June 30, 2022. They should be made permanent.

Enhanced federal unemployment benefits — Federal Pandemic Unemployment Compensation (FPUC) — are currently set to end in September 2021. After federal benefits expire, Rhode Island workers will still be eligible to claim partial unemployment insurance. Under the changes proposed in H6249, workers would be eligible to earn more while receiving partial unemployment insurance.



With the current partial unemployment system, a median-earning food service worker can take a part-time job working up to 4 hours per week at a wage of $12.58 while still receiving $252 in state unemployment benefits (i.e. excluding FPUC) in addition to her paycheck. The four hours of earnings are "disregarded," meaning she can receive a paycheck from work while still receiving full unemployment benefits as if she were not working. Each hour worked above four hours triggers a dollar-for-dollar phase-down of unemployment benefits.

H6249 increases the earnings disregard, allowing workers to clock more hours and earn more money before unemployment benefits begin to phase out. Under the legislation, a typical food service worker can work up to 10 hours per week before her earnings begin to offset her unemployment benefits.

Because money earned above the disregarded threshold is counteracted with a dollar-for-dollar decrease in unemployment benefits, creating an effective marginal tax rate of 100% (before accounting for payroll, income and other taxes), raising the threshold can increase the incentive for workers to take on additional hours.

Further, H6249 raises the amount a worker can earn while still receiving partial unemployment insurance — from 50% of her weekly benefit amount to 150%. In the absence of FPUC, the current partial unemployment insurance system still creates a benefit cliff for some workers. A median-earning food service worker, for example, hits the 50% threshold at 20 hours of work per week, before benefits are fully phased down. This means that, if this person works 19 hours per week, she will receive $302 in combined earnings and state unemployment benefits. If she works 21 hours, she is no longer eligible for partial unemployment benefits, but her earnings leave her with just $264 in income.

There is little reason to revert to the old partial unemployment system on July 1, 2022. Both changes made by H6249 (raising the earnings disregard and increasing the eligibility earnings threshold) are improvements that encourage work and remove benefit cliffs. Even after federal unemployment benefits expire, the changes proposed in H6249 will continue to be helpful to workers and employers.

Making these changes permanent will simply bring Rhode Island in line with the partial unemployment insurance formulas already used in other states. Idaho, for example, has an earnings disregard of 50% and an earnings eligibility limit of 150% — identical to the specifications proposed in H6249, but on a permanent rather than temporary basis.

(Once FPUC expires, benefit levels will not be impacted by increasing the earnings threshold beyond 150%, as I propose, because of the dollar-for-dollar offset of earnings and unemployment benefits. Raising the threshold can be done on a permanent basis with no increased cost to the state relative to H6249 as currently written.)

Thank you for your time and consideration.

Andrew Boardman